

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 STR-04 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 TRSE-00 /108 W

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R 111030Z NOV 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 4279

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

ANEMBASSY ANKARA 2867

AMEMBASSY BAGHDAD

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CAIRO

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY MOSCOW

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY TOKYO

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L TEHRAN 10983

E.O. 11652: GDS

TAGS: ENRG, IR, UR, GW, AU,JA,FR

SUBJ: OIL AND NATURAL GAS

REFS: (A) TEHRAN 10609, B) TEHRAN 10857

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1. IN NOV 10TH CONVERSATION WITH PARVIZ MINA, NIOC DIRECTOR

OF INTERNATIONAL AFFAIRS, ASKED HIM ABOUT THE EL PASO/ DISTRIGAZ LNG PROJECT, ABOUT THE SHARP DROP IN IRAN'S CRUDE OIL EXPORTS IN OCTOBER, AND ABOUT THE NIOC/US SHELL EXPORT REFIN- ERY PROJECT.

2. CALLED ON MINA IN RESPONSE TO HIS OFFER TO BRIEF ME ON ADDITIONAL DEVELOPMENTS IN THE EL PASO PROJECT FOLLOWING A MEETING OF THE PARTICIPANTS WHICH WAS HELD IN BRUSSELS TEN DAYS AGO. HE STATED THAT THE PROJECT IS PREDICATED ON EXPORT OF TWO(2) BILLION CU FT/DAY OF LNG, WITH ONE(1) BILLION OF THIS DESTINED FOR THE US MARKET. FINANCING OF THE PROJECT, HE SAID, DEPENDS ON OBTAINING SALES CONTRACTS FOR THE GAS, SOME OF WHICH MUST BE WITH US COMPANIES. IF EL PASO FAILS TO PERSUADE USG TO ALLOW LNG IMPRTS, PROJECT MUST BE ENTIRELY REDONE. EL PASO, HE SAID, HAS A DEADLINE OF APRIL 1976, BY WHICH TIME IT MUST OBTAIN REQUIRED LICENSES TO IMPORT LNG INTO THE US. MINA SAID IT HAS BEEN DETER- MINED THAT THIS PROJECT WILL BE ECONOMICALLY VIABLE ONLY IF THE LNG IS TRANSPORTED VIA THE SUEZ CANAL. PIPELINE TO LIQUEFACTION FACILITY IN TURKEY WILL NOT WORK. HE REFERRED TO TRIP HE AND DR. EGHBAL MADE TO CAIRO LAST SUMMER TO DISCUSS PREFERENTIAL SUEZ CANAL TARIFF FOR LNG. HE EMPHASIZED THAT LNG TRASNPORT IS A SPE- CIAL CASE NOT COMPARABLE TO ORDINARY TANKER SHIPMENT. IT OFFERS TO SUEZ CANAL AUTHORITY THE PROMISE OF STEADY REVENUE FOR 20 YEARS. HE AND DR. EGHBAL TOLD AUTHORITY OFFICIALS THAT REDUCED RATES SHOULD BE GRANTED TO LNG TANKERS IN EXCHANGE FOR THIS GUARANTEED REVENUE. CANAL TARIFFS, HE SAID, ARE STILL UNDER NEGO- TIATION. (EMBASSY PREVIOUSLY REPORTED THAT MINA-EGHBAL VISIT OCCURRED JUST IN TIME FOR SUEZ CANAL AUTHORITY TO INCLUDE DETERMINATION OF LNG TARIFFS IN INSTRUCTIONS TO ITS CONSULTANT ON RAGES.) I ASKED MINA ABOUT STATUS OF ALGERIAN/EL PASO PROJECT AND MINA REPLIED THAT IT WAS HIS IMPRESSION (THOUGH IT IS NOT MINE) THAT USG HAS APPROVED THIS PROJECT.

3. COMMENT: AS REPORTED REFTEL A, TWO WEEKS AGO MINA TOLD EMBOFF THAT EXPORTS OF LNG TO US NOT ABSOLUTELY ESSENTIAL IF PRO- JECT COULD FIND MARKETS CLOSER TO HOME. HIS ABOUT-FACE, WITH EMPHASIS NOW ON CRUCIAL ROLE OF US MARKET IN PROJECT, PRESUMABLY REPRESENTS EFFORT TO INFLUENCE OUTCOME OF USG CONSIDERATION OF LNG IMPORT OPTIONS. IT IS ALSO POSSIBLE THAT THIS SHIFT IN EMPHASIS MAY HAVE RESULTED FROM FURTHER CONSIDERATION OF THE SIZE

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OF THE POTENTIAL LNG MARKET IN EUROPE AND FROM A PRELIMINARY CON- CLUSION THAT 2 BILLION CF/D IS TOO MUCH FOR THAT MARKET TO ABSORB, IN VIEW OF OTHER GAS SUPPLIES NOW BEING LINED UP BY ERUO- PEANS. THERE IS NO DOUBT, IN ANY CASE, THAT THIS PROJECT IS EXTREMELY IMPORTANT TO THE GOI. IF THE USG DECIDES IN THE END TO DISCOURAGE LNG IMPORTS, I WOULD HOPE THAT IT WOULD NEVERTHE- LESS CONSIDER SERIOUSLY OTHER MEANS OF PARTICIPATING IN OR ENCOUR- AGING THIS PROJECT, AS SUGGESTED IN REFTEL A.

4. IN RESPONSE TO MY QUESTION ON THE SHARP FALL IN IRAN'S OCTOBER EXPORTS, MINA COMMENTED THAT GOI IS SERIOUSLY CONCERNED AND SAID THAT OCTOBER EXPORTS WERE "THE LOWEST EVER." HE ADDED THAT LIFTINGS DURING JANUARY-SEPTEMBER 1975 WERE DOWN 11-12 PERCENT FROM THE SAME PERIOD LAST YEAR. IN TALKS LAST WEEK WITH CONSORTIUM MEMBERS, HE SAID, LATTER RENEWED THEIR COMPLAINT THAT IRANIAN CRUDES ARE OVERPRICED. NIOC TOLD THEM THAT IRAN HAD "UNILATERALLY" DROPPED PREMIUM ON IRANIAN LIGHT BY TEN CENTS. FOR HEAVY CRUDE, HOWEVER, IRAN WOULD NOT REDUCE PRICE UNILATERALLY, BUT WOULD COORDINATE WITH KUWAIT AND WITH SAG(ON ARAB MEDIUM). AT THIS POINT MINA LAUNCHED INTO DESCRIPTION OF KUWAIT'S PROBLEMS ARISING FROM DOMESTIC NEED FOR GAS PRODUCED IN ASSOCIATION WITH CRUDE OIL. KUWAIT, HE SAID, WOULD HAVE TO CURTAIL ESSENTIAL SERVICES IF CRUDE PRODUCTION FALLS TOO LOW; OIL COMPANIES WELL AWARE OF THIS AND ARE THUS "SQUEEZING" KUWAIT.

5. REGARDING SHELL/NIOC EXPORT REFINERY, MINA SAID AGREEMENT HAS BEEN FINALIZED AND INITIALLED BY NIOC. IT IS NOW DORMANT PENDING A POSSIBLE CHANGE IN US ENERGY POLICY. (PRESUME MINA REFERS PRIMARILY TO RELATIVELY LOW AVERAGE PRICE OF CRUDE TO US REFINERIES DUE TO PRICE CONTROLS ON DOMESTIC "OLD OIL" AND FEA COST ALLOCATION PROGRAM.) IN MEANTIME, MINA SAID, SHELL AND NIOC ARE "STAYING IN TOUCH."
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